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SIPDIS

STATE FOR AF/S
NSC FOR SENIOR AFRICA DIRECTOR JFRAZER
USDOC FOR 2037 DIEMOND
TREASURY FOR OREN WYCHE-SHAW
PASS USTR FLORIZELLE LISER
STATE PASS USAID FOR MARJORIE COPSON

1E. O. 12958: N/A
TAGS: [ECON](#) [EFIN](#) [EINV](#) [PGOV](#) [ZI](#)
SUBJECT: 2004 budget was nonevent

1. Summary: Consider two dissonant facets of last Thursday's budget announcement-

a) The Robert Mugabe government projected this year's economic growth at minus-13.2 percent, ensuring Zimbabwe remains the planet's worst performing peacetime economy.

b) It proposed no significant new initiatives or policy changes.

The budget, descriptive rather than prescriptive, wears the insignia of entrenched bureaucratic paralysis. Neither moderates nor hardliners were able to impose their will on the process. The heat of battle has proven more than Herbert Murerwa, Zimbabwe's timid finance minister, could bear. He gleefully ceded policymaking authority to incoming Reserve Bank Governor Gideon Gono, the economy's new point man. End Summary.

Issues Skirted

2. Most of the speech is too mundane to cite (even in an economic reporting cable). The GOZ mostly adjusted revenue for inflation, raising the tax brackets and most smaller taxes about 10-fold, as well as converting a sales to value-added tax. It might be more instructive to look instead at the main issues the budget skirted:

- Devaluation. A low official currency rate, coupled with mandatory exchange requirements, has crippled Zimbabwe's export sector. Moderates pressed unsuccessfully for devaluation, or a reduction from 50 percent of earnings in the exchange requirement. The budget did not mention devaluation and, worse still, suggested the GOZ may introduce exchange controls in export processing zones, a remaining bastion of commercial vitality.

- Parallel Market Trading. Hardliners sought a more aggressive clampdown on parallel market trading; moderates wanted official approval for these transactions. Official policy is contradictory. For instance, the GOZ has agreed that oil companies can sell fuel at an international market price, but may not replenish stocks by converting earnings into forex. The budget also insisted that energy, telecom, grain and transport parastatals should charge "break-even prices" for goods and services, but the only means for cost-recovery would be parallel market pricing. Although the budget was otherwise silent on parallel market trading, last Friday's Herald - a hardliner mouthpiece - kept the pressure up by arguing "when a nation starts pricing its products and services on parallel market rates, that in itself is a signal for disaster."

- Land Reform. Hardliners wanted the GOZ to spend heavily on resettled farms. The budget allocated only Z\$25 billion (US\$4 million) toward inputs for small-scale farmers, triggering a sharp denunciation from the same Herald editorial.

- Interest Rates. Probably no other GOZ policy is more responsible for runaway inflation than artificially low lending rates, currently 400-percent negative. Hardliners are adamant about keeping them down as a means to spur productivity. Moderates argue that negative rates have caused capital flight, speculative borrowing and, most importantly, GOZ overspending.

Comment

3. The milk-toast budget suggests the Finance Ministry is no longer a player in GOZ economic policymaking, quite a tumble for a ministry once commandeered by forceful figures like Bernard Chidzero and Simba Makoni. Regardless of official title, Gideon Gono is about to

become Central Banker, Finance and Trade Ministers melded
into one.

Sullivan